

**BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

DOCKET NO. 2018-319-E

In the Matter of:)	
)	REBUTTAL TESTIMONY OF
Application of Duke Energy Carolinas,)	KIM H. SMITH
LLC for Adjustments in Electric Rate)	FOR DUKE ENERGY
Schedules and Tariffs and Request for an)	CAROLINAS, LLC
Accounting Order)	

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 A. My name is Kim H. Smith and my business address is 550 South Tryon
4 Street, Charlotte, North Carolina. I am a Director of Rates and Regulatory,
5 employed by Duke Energy Carolinas, LLC, testifying on behalf of Duke
6 Energy Carolinas (“DE Carolinas” or the “Company”).

7 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, I did. I filed direct testimony and exhibits in this docket on November
10 8, 2018. I filed supplemental direct testimony and one exhibit on January
11 18, 2019.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to certain accounting
14 and ratemaking adjustments proposed by the Office of Regulatory Staff
15 (“ORS”), and to respond to the ORS’ recommendations with regards to
16 deferred costs that would result in the Company not being able to fully
17 recover its prudently incurred costs.

18 **Q. DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?**

19 A. Yes, I have included three exhibits. Smith Rebuttal Exhibit 1, which is an
20 informational filing and a revision of the original Smith Exhibit 1 filed
21 with my direct testimony. Smith Rebuttal Exhibit 1 shows the Company’s
22 revised revenue requirement incorporating the Company’s adjustments

1 filed in its supplemental filing and the Company's rebuttal position in this
 2 case. Smith Rebuttal Exhibit 2 shows the proposed EDIT Rider updated
 3 for the change in cost of debt supported in the rebuttal testimony of
 4 Company Witness Sullivan. Smith Rebuttal Exhibit 3 shows the proposed
 5 Phase 1 and Phase 2 revenue requirements for the Grid Improvement Plan
 6 updated for the change in cost of debt supported in the rebuttal testimony
 7 of Company Witness Sullivan and for a refinement to the class allocation
 8 factor discussed in the testimony of Company Witness Hager.

9 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER**
 10 **YOUR DIRECTION AND SUPERVISION?**

11 A. Yes, these exhibits were prepared under my supervision.

12 **II. RESPONSE TO THE OFFICE OF REGULATORY STAFF**

13 **ACCOUNTING ADJUSTMENTS**

14 *Adjustments Not Opposed*

15 **Q. ARE THERE ANY ACCOUNTING ADJUSTMENTS WHERE THE**
 16 **COMPANY AND THE ORS AGREE BASED ON THE COMPANY'S**
 17 **FILING MADE ON NOVEMBER 8TH, 2018?**

18 A. Yes, there are nine accounting adjustments where the Company and the
 19 ORS agree based on the filing the Company made on November 8, 2018.

20 #6 – Adjust for cost recovered through non-fuel riders

21 #8 – Annualize depreciation on year end plant balances

22 #9 – Annualize property taxes on year end plant balances

23 #10 – Adjust for new deprecation rates

- 1 #16 – Adjust for coal inventory
- 2 #17 – Adjust for approved regulatory assets and liabilities
- 3 #24 – Levelize nuclear refueling outage costs
- 4 #26 – Adjust aviation expenses
- 5 #34 – Adjust for tax rate change

6 **Q. ARE THERE ADDITIONAL ADJUSTMENTS RECOMMENDED**
7 **BY THE ORS WITH WHICH THE COMPANY AGREES?**

8 A. Yes, there are 10 recommended adjustments by the ORS either in Direct or
9 Supplemental Testimony with which the Company agrees as detailed
10 below. These adjustments reflect the update of estimates to actuals and
11 additional adjustments to the Company's cost of service as shown on
12 Smith Supplemental Exhibit. Smith Rebuttal Exhibit 1 incorporates the
13 adjustments listed below.

- 14 #1 – Annualize Retail revenues for current rates
- 15 #2 – Update fuel costs to approved rate and other fuel related adjustments
- 16 #3 – Adjust Other Revenue
- 17 #4 – Adjust the amount of CWIP included in rate base
- 18 #5 – Eliminate unbilled revenues
- 19 #11 – Adjust for post year additions to plant in service
- 20 #12 – Reflect 2017 Lee Combined Cycle addition to plant in service
- 21 #23 – Update benefit costs
- 22 #31 – Adjust vegetation management expenses

1 #32 – Adjust Income Taxes to Synchronize Interest Expense for the
2 Adjusted Test Year Rate Base

3 *ORS Adjustments Opposed by the Company*

4 **Q. PLEASE SUMMARIZE THE ORS’S RECOMMENDATION WITH**
5 **REGARD TO DEFERRALS.**

6 A. The ORS makes several recommendations with regards to deferred costs
7 that would in effect deny the Company recovery of prudently incurred
8 costs. These recommendations are primarily discussed in the testimony of
9 ORS Witness Payne. There are a number of deferrals in this case, which
10 include carrying costs. Carrying costs are necessary to ensure that the
11 Company recovers the full value and effect of the deferral. No one
12 contests the prudence of the expenses in the deferrals though ORS
13 devalues the deferrals by disallowing carrying costs and, in most cases,
14 significantly extending the recovery period for the deferred costs.

15 First, the ORS recommends that the Company be disallowed the
16 return on the incremental costs, which the Company has deferred in a
17 regulatory asset on its books during the deferral period. ORS Witness
18 Payne offers no justification for the disallowance other than citing the
19 portion of the order that states that “(s)uch relief will not prejudice the
20 right of any party to address the prudence of such costs in a subsequent
21 rate proceeding.” If ORS Witness Payne alleges that the deferred costs
22 were imprudent, he offers no argument explaining such allegation in his
23 testimony. Second, the ORS recommends that the Company be disallowed

1 a return during the amortization period for the portion of the regulatory
2 assets that relate to operating expenses. Finally, in the testimony of ORS
3 Witness Morgan, the ORS recommends unnecessarily long recovery
4 periods for the deferred costs, increasing the amount of disallowance to
5 the Company due to the cost of money.

6 **Q. WHICH ADJUSTMENTS ARE IMPACTED BY THE ORS**
7 **RECOMMENDATIONS REGARDING DEFERRALS?**

8 A. The differences in the Company's position and the ORS's position on the
9 adjustments listed below are related to the treatment of deferrals.

10 #7 – Carolinas West Control Center Deferral Amortization

11 #13 – Amortize Deferred Cost Balance Related to Lee Combined Cycle

12 #19 – Amortize Deferred Cost Balance Related to SC AMI

13 #35 – Adjust deferred cost balance related to SC Grid

14 Later in my testimony I will discuss additional adjustments (#14, #18,
15 #25, #30). Not only does the Company oppose the ORS's recommended
16 deferral treatment of these adjustments, the Company also opposes other
17 aspects of the ORS's recommendations on these adjustments.

18 **Q. DOES THE COMPANY OPPOSE THESE ORS**
19 **RECOMMENDATIONS?**

20 A. Yes. The Company strongly opposes these recommendations as I explain
21 below and as further explained in the rebuttal testimonies of Company
22 Witnesses Ghartey-Tagoe, Wright and Hevert.

1 ORS Witness Payne recommends separating the deferred balances
2 into two categories – deferred operating expenses (including O&M,
3 depreciation expense and property taxes on plant in-service) and deferred
4 capital costs (which, under his definition, only includes deferred return on
5 capital investments). ORS Witness Payne then goes on to recommend that
6 the Company be disallowed a return on the deferred operating expenses
7 over the entire amortization period, in some cases under the ORS
8 recommendation, as long as 39 years. He argues that the Company would
9 not have earned a return had the costs not been deferred. In other words,
10 had the Company collected the costs from customers in the period which
11 the costs had been incurred, the Company would have no financing
12 requirements and would not need to earn a return. This logic is misplaced
13 and inconsistent with other carrying costs that the ORS is willing to accept
14 when they are beneficial to customers, as explained below. Moreover,
15 stretching out cost recovery to life of plant as ORS Witness Morgan did is
16 a capital-based concept. It is inappropriate to treat costs like capital costs
17 in terms of length of recovery, but not allow them to be placed into rate
18 base or collect carrying costs like undepreciated capital would receive.

19 Applying ORS logic in an even-handed manner, if the Company
20 must accept the weight of carrying costs on expenses to be paid by
21 customers, then it should also accept the benefit of carrying costs which it
22 was otherwise willing to pay customers. The inequity of the ORS
23 argument is clear when one considers deferred income taxes. Income taxes

1 are an operating expense. Deferred income taxes result from the timing
2 difference from when the Company pays the cash for the expense and
3 when the costs are recovered in customer rates. The only difference is that
4 the amounts are collected in rates before the Company pays the cash,
5 resulting in a regulatory liability, instead of a regulatory asset. In order to
6 be consistent in its position, the ORS would need to also recommend
7 removing the deferred tax liabilities from rate base since these are the
8 result of deferred operating expenses. For DE Carolinas, the accumulated
9 deferred income tax plus excess deferred income tax balances included as
10 a reduction to rate base in this case are \$1.7 billion. Removing these items
11 from rate base would result in a 30 percent increase in rate base. If the
12 ORS were to consistently apply its logic, it would be a significant
13 detriment to customers if taken to its logical conclusion.

14 The appropriate and more equitable treatment, and the one
15 proposed by the Company, is to continue to include the deferred taxes in
16 rate base recognizing that the Company has additional cash that can be
17 used to finance utility investments and customers should receive a return
18 on the Company's use of that cash. In the same way, the regulatory assets
19 resulting from the Commission approved deferrals, including the deferred
20 operating expenses, are appropriate to include in rate base because there is
21 a timing difference between when amounts are paid and when they are
22 collected from customers. During this time, the Company must incur

1 additional financing costs related to the cash it has borrowed for the
2 amounts it has expended but not yet collected from customers.

3 In his testimony, ORS Witness Payne references that the National
4 Association of Utility Commissioners (“NARUC”) Rate Case and Audit
5 Manual states that regulatory assets and other deferrals should be
6 examined to determine if the deferred costs are appropriate to be included
7 in rate base. The manual says nothing about splitting the regulatory assets
8 between deferred operating expenses and deferred capital costs. I have
9 never heard of this concept before and, as far as the Company can tell, the
10 ORS developed this idea in isolation without any supporting industry
11 manuals, documentation or precedent. The NARUC manual that ORS
12 Witness Payne refers to states:

13 “In looking at the nature of the deferrals, the auditor should
14 consider whether the deferral is appropriate for inclusion in rate
15 base. For instance, is the utility deferring certain fuel or purchased
16 power expenses under a mechanism that is approved by the
17 Commission allowing for dollar-for-dollar recovery of those
18 costs?” (Pages 22-23)

19 Consistent with what this manual appears to be referring to, the Company
20 does not and is not proposing in this case to earn a return on its deferred
21 fuel balances. The deferred balances at question in this case are very
22 different, and both the Company and the ORS have proposed multi-year
23 recovery periods. While the Company would still disagree, if the ORS

1 were proposing recovery of the deferred costs through a one-year rider,
2 their proposed rate base treatment would at least be more logical and
3 consistent with the NARUC manual. That is not the case.

4 The ORS recommendations discussed above suggest a business
5 can borrow money for free. However, investors do not provide interest free
6 loans.

7 **Q. HOW WOULD YOU SUMMARIZE THE COMPANY'S POSITION**
8 **ON RETURNS ON DEFERRALS?**

9 A. Deferrals, by definition, recognize that the Company is incurring a cost
10 that is not currently recovered in customer rates. The Company is
11 incurring costs related to these deferrals. Those costs, whether designated
12 as capital or operating for accounting purposes, require cash. That cash
13 must be obtained from the Company's debt and equity investors. And
14 those investors require interest, or a return, on the cash they have invested
15 in the Company. These financing costs (the return on the deferred costs)
16 are a real cost that the Company incurs and to disallow recovery of these
17 costs during the deferral period or the amortization period would be to
18 disallow prudently incurred costs.

19 **Q. WHAT IS YOUR RESPONSE TO THE AMORTIZATION PERIOD**
20 **LENGTHS PROPOSED BY ORS WITNESS MORGAN?**

21 A. The chart below shows the deferrals for which ORS Witness Morgan
22 recommends lengthy amortization periods far longer than what the
23 Company recommends.

		Deferred Balance (\$000)	Length of Amortization in years	
Adj #	Adjustment	Company Position	Company Position	ORS Position
SC -0700	Carolinas West Control Center	5,344	3	30
SC -1300	Lee CC Combined Cycle	22,913	3	39
SC -1900	SC AMI	35,957	3	15
SC -3500	SC Grid	6,160	2	5

1 While exact amortization periods are subjective, there needs to be a
2 balance and consideration of both the impact on customer rates and the
3 impact on the Company's cash flow. Given the deferred balances, the
4 amortization periods proposed by ORS Witness Morgan are excessive and
5 unnecessarily long for these deferrals. In addition, since the ORS has
6 recommended to disallow the return during the amortization period, the
7 longer amortization periods exacerbate the disallowance. Therefore, the
8 Company opposes these recommendations. Again, the logic is
9 contradictory. ORS doesn't support a return because the costs were not
10 originally classified as capital, but then turns around and treats them like
11 capital by proposing such lengthy amortization periods.

12 **Q. PLEASE DESCRIBE THE COMPANY'S RESPONSE TO THE**
13 **REMAINING ORS PROPOSED ADJUSTMENTS.**

14 A. The Company opposes the ORS recommendations on the remaining
15 adjustments. The Company's position on the remaining ORS adjustments
16 are explained below.

1 **Adjustment #14 –Adjust for Lee Nuclear amortization**

2 The Company does not oppose the ORS's adjustment to remove certain
3 costs associated with the design of a visitor's center from the balance
4 related to Lee Nuclear; however, the Company does oppose ORS Witness
5 Morgan's recommendation for the Company not to earn a return on the
6 unamortized balance of the deferred project development costs as
7 discussed above. If the Commission agrees the project development costs
8 have been prudently incurred, then it is appropriate for the Company to
9 recover its financing costs that will be incurred during the amortization
10 period, as amounts are collected from customers over time. Moreover,
11 allowing a return would be appropriate and fair given that the costs for
12 V.C. Summer, which were of a far greater magnitude, are being recovered
13 with a return. To not allow a return for Lee Nuclear costs would be
14 punitive and arbitrary.

15 **Adjustment #18 –Amortize deferred environmental costs**

16 The Company opposes the adjustments recommended by the ORS. First,
17 the ORS recommends disallowing a portion of the returns on the
18 components of the deferral relating to capital investments at operating
19 plants. The punitive nature of the adjustment recommended by Witness
20 Payne to disallow the return on the deferred costs for this component
21 during the deferral period and not earn a return during the time period
22 when the costs are being recovered (amortization period) is discussed
23 above. The Company also vigorously opposes the ORS recommendations

1 to disallow certain coal ash related costs for the reasons set forth in the
2 rebuttal testimony of Company Witnesses Kerin and Wright.

3 **Adjustment #20 – Normalize for storm costs**

4 The Company's pro forma adjustment normalizes storm restoration costs
5 to the average level of costs the Company experienced over the past ten
6 years. However, ORS Witness Morgan recommends eliminating the
7 expenses in the highest and lowest years to use an eight-year average
8 expense level. The Company does not oppose this component of the ORS
9 adjustment. However, the ORS adjustment also removes the inflation
10 impact to storm costs, which is not described in ORS's testimony and has
11 a larger impact on the average. The Company does oppose this component
12 of the ORS's adjustment, as it is unreasonable and ignores the current
13 costs implicated in addressing storms.

14 The Company's adjustment adjusts each storm cost year included
15 in the ten-year average to be comparable to the test year on an inflation
16 adjusted basis. This is appropriate because as with the costs of other goods
17 and services, the costs associated with storm restoration – e.g., the costs
18 for contract labor, such as line workers and tree professionals, materials,
19 and staging and logistics – have increased significantly in the last ten
20 years. In fact, the average annual inflation rate calculated by the Company
21 for the ten years beginning in 2008 is 1.422 percent per year, or 14.22
22 percent over the ten-year period. This adjustment is more than reasonable
23 given that DE Carolinas' contract labor costs alone have increased 45

1 percent from 2008 to 2017.¹ By removing the Company's inflation
2 adjustment, the ORS seems to be implying that the Company should be
3 able to hire contractors to work on storm restoration in 2019 for the exact
4 same hourly rate it paid them in 2008. This is not realistic, and this portion
5 of the ORS adjustment should be rejected by the Commission. Smith
6 Rebuttal Exhibit 1, Page 3, Line 20 updates this adjustment to reflect the
7 ORS's recommendation to use an eight-year average, but continues to
8 include inflation adjusted costs in the average.

9 **Adjustment #21 –Annualize O&M non-labor expenses**

10 The Company's adjustment annualized Test Period O&M expenses
11 (excluding fuel, purchased power, and labor costs) to reflect the change in
12 costs that occurred during the test period. ORS Witness Smith proposes to
13 exclude this adjustment because "it is based on projected and estimated
14 data rather than known and measurable expenses." This is not true and the
15 Company maintains that its adjustment is appropriate. First, the purpose
16 of the Company's proposal is not to project O&M expenses, but instead to
17 annualize the impacts of inflation to an end of test period level. The
18 adjustment takes actual known and measurable inflation metrics
19 (Consumer Price Index and Producer Price Index) and compares the
20 average of the test period to the end of test period metrics. These metrics
21 for the 2017 test period are historic, known and measurable, and publicly

¹ This percentage is based on on-system contractor rates for 2008 and 2017. These are the contractors that DE Carolinas uses on its system on a regular basis, and relies upon when there is a storm event.

1 available from the U.S. Bureau of Labor Statistics. This adjustment is very
2 similar to the customer growth adjustment which the ORS has not
3 rejected. The customer growth adjustment compares the average number
4 of customers during the test period to the end of test period number of
5 customers in order to annualize the impacts of customer growth to an end
6 of test period level. Both adjustments annualize impacts – one for
7 customer growth and one for inflation – and both are appropriate to
8 include.

9 **Adjustment #22 –Normalize O&M labor expenses**

10 The Company's adjustment adjusts the wages and salaries and related
11 employee benefit costs to reflect annual levels of costs as of July 1, 2018
12 and also reflects changes in related payroll taxes. The ORS recommends
13 updating the salary allocator for DEC to the same date as the O&M labor
14 expense, July 1, 2018, and the Company does not oppose this portion of
15 the ORS recommendation. However, the Company does not agree with
16 ORS Witness Smith's recommendation to remove 50 percent of the
17 Company's long and short term incentive ("LTI" and "STI") program
18 costs for the reasons discussed by Company Witness Metzler.

19 **Adjustment #25 –Amortize rate case costs**

20 The Company opposes this adjustment recommended by ORS Witness
21 Payne to disallow the Company to earn a return on the deferred costs
22 during the deferral period and not earn a return during the time period
23 when the costs are being recovered is discussed above. The Company

1 also opposes ORS Witness Smith's recommendation to disallow certain
2 rate cases expenses due to alleged insufficient documentation to support
3 the costs. The expenses being challenged are legal services provided by
4 outside counsel which are billed to the Company using an e-billing
5 system. Upon contacting the ORS to determine the level of detail they
6 would need to determine the documentation was sufficient, I learned that
7 only a paper invoice would suffice. An e-billing system has been utilized
8 at Duke for the last several years. It is a commonly used platform and not
9 unusual for a large company to utilize for administrative efficiency.
10 Instead of paper invoices, outside vendors are given login credentials to
11 access the system where they input all relevant billing information (date,
12 matter, rate, hours, description of work performed, etc.) directly into the
13 system. Once the information is entered, the approving attorney is
14 prompted to access the system, review the information and approve or
15 deny the invoice. At all times, the information is provided, communicated
16 and stored electronically. When a data request is made to review the
17 billing data, the system exports the data to Microsoft Excel, which is
18 supplied as the response. For legal invoices, the descriptions of work
19 performed are reviewed for privileged information before providing.
20 During discussions with the ORS the Company offered to provide
21 screenshots of the data in the system, redact the privileged information by
22 hand before submitting to them or have our vendors sign affidavits
23 attesting that they have reviewed the information the Company is

1 providing to the ORS and that it is true and accurate. At the time of this
2 testimony, the Company has not heard back from the ORS but notes that
3 its expenses were reasonably and prudently incurred and no justifiable
4 reason for disallowance has been given.

5 **Adjustment #29 –Adjust O&M for executive compensation**

6 The ORS agrees with the Company's adjustment to remove 50 percent of
7 the compensation of the four Duke Energy Executives with the highest
8 level of compensation allocated to DE Carolinas in the test period.
9 However, since ORS Witness Smith proposed to remove 50 percent of
10 incentives for all employees in adjustment #22, she added back the 50
11 percent of incentives for the top four executives in this adjustment. The
12 Company does not agree with ORS Witness Smith's recommendation
13 related to the incentive pay components for all employees, including
14 linemen, call center representatives, etc., for the reasons discussed by
15 Company Witness Metzler. However, the Company excluded 50 percent of
16 the compensation, including incentives, of its top four executives in its
17 original filing, and I have kept that exclusion in this adjustment in Smith
18 Rebuttal Exhibit 1, rather than moving it to Adjustment #22 as ORS
19 Witness Smith has.

20 **Adjustment #30 –Adjust for Customer Connect Project**

21 The Company has included costs related to its Customer Connect project
22 which will replace the Company's current billing system and is currently
23 planned to be placed in service in 2022. Due to the nature of the costs, a

1 significant portion of the spending between now and the in-service date
2 will be O&M. The ORS has made two recommendations to the
3 Company's adjustment which the Company opposes. The Company's
4 opposition to the ORS recommendations regarding deferrals are discussed
5 earlier in my testimony. In addition, the ORS recommends removing the
6 Company's proposed increase to O&M. ORS Witness Payne states these
7 costs should be removed because they are not known and measurable
8 (page 13). As stated in my direct testimony, these costs are based on
9 signed contracts. Portions of the costs are based on amounts specified in
10 the contracts and the remaining amount can be reasonably estimated based
11 on the activities the Company is obligated to in the contract. This is
12 comparable to O&M for a new generation plant. When a new plant is
13 placed in service, the Company is obligated to operate and maintain that
14 plant and the Company's obligation is known and can be reasonably
15 measured. The exact level of O&M is not known, but an approximate level
16 can be reasonably estimated based on experience operating similar plants.
17 To allow a utility no level of O&M in rates for the new plant would be
18 unreasonable. Similarly, to allow the Company no level of O&M, or solely
19 the amount in the test period of \$640,000, for Customer Connect would
20 also be unreasonable. At a minimum, the Company's actual O&M in 2018
21 of \$3,189,000, should be allowed. However, the Company believes its
22 proposed amount of \$4,665,000 is reasonable and should be allowed.
23 Company Witness Hunsicker, in both her direct and rebuttal testimony,

1 details the benefits the system will provide to customers and the
2 Company's commitment to incur the costs through signed contracts.
3 Removing from this case the operating expenses needed to implement the
4 project is the same as denying the Company the opportunity to recover
5 those costs for a new billing system which no one has contested.

6 I will note that an alternative that would still allow the Company
7 to recover these costs is for the Commission to approve a continuation of
8 the deferral of the incremental operating expenses incurred related to the
9 Customer Connect project, including a carrying charge on the deferred
10 costs, until the Company's next general rate case. This would be a
11 reasonable alternative to the Company's adjustment related to Customer
12 Connect and would be similar to the treatment agreed to in partial
13 settlement and approved by the North Carolina Utilities Commission in
14 the Company's recent North Carolina rate case.²

15 **Adjustment #33 –Adjust 1/8 O&M for accounting and pro forma**
16 **adjustments**

17 The Company's rate base is adjusted to include the additional working
18 capital required as a result of the additional O&M expenses the Company
19 is proposing in this proceeding. ORS proposes an adjustment to working
20 capital which reflects ORS adjustments to O&M expenses. To the extent
21 that Company does not agree with certain of the ORS's proposed O&M

² Order dated June 22, 2018, in North Carolina Utilities Commission Docket No. E-7 Sub 1146.

1 expense adjustments for the reasons discussed in my testimony, the
2 Company disagrees with the ORS's amount for this adjustment. However,
3 we agree on the concept of and the method used to calculate this
4 adjustment.

5 **Adjustment #36 –Remove Certain Expenses**

6 The Company opposes this adjustment. The ORS recommends removing
7 O&M expense of \$2,399,000, from the test period for costs ORS Witness
8 Smith characterized as “sponsorships, lobbying expenses, service awards,
9 advertising and other miscellaneous items.” The Company reviewed the
10 same transactions that the ORS reviewed and has agreed to remove
11 \$227,033 from O&M expense. After the Company's adjustment, there are
12 no lobbying costs or image-building advertising costs in this case.

13 However, the items in the ORS's adjustment the Company
14 disagrees with removing in this proceeding primarily fall into the
15 following categories:

- 16 1. **Employee incentives, service & safety awards, and any costs to**
17 **recognize and reward the Company's employees who serve our**
18 **customers.** The appropriateness of these costs is addressed in the
19 rebuttal testimony of Company Witness Metzler.
- 20 2. **Lineman's Rodeo costs.** The Lineman's Rodeo is an industry
21 event where linemen share best practices and compete in events
22 where they have the opportunity to display and hone their skills as
23 linemen to provide reliable service (ex. Pole top rescue, proper

1 insulation techniques) to the benefit of our customers. Prior to the
2 event, linemen are training to prepare for the event, which has the
3 benefit of additional preparation for their jobs. The appropriateness
4 of these costs is addressed in the rebuttal testimony of Company
5 Witness Metzler.

6 3. **Organization dues.** These membership dues for local South
7 Carolina Chambers of Commerce and other local South Carolina
8 organizations that promote economic development in South
9 Carolina, such as Visit Greenville SC and the Spartanburg
10 Development Association, are appropriately included in the case.
11 Chamber of Commerce organizations promote policies, initiatives
12 and principles that benefit all citizens through economic
13 investments, job creation and retention, strong schools, and
14 attracting and retaining business development. As the Greenville
15 Chamber of Commerce puts it, “the Chamber mission is to lead,
16 convene and mobilize the business community to drive regional
17 economic growth.” Membership in the various Chambers of
18 Commerce and other Civic organizations is an integral part of
19 managing our business responsibly on behalf of our customers and
20 keeping in contact with a very important segment of our
21 customers.”

22 Funds paid to these organizations that are not specified as a
23 donation or lobbying on the invoice are generally in support of

1 business, economic development and the communities we serve. It
2 is reasonable, as explained by Witness Gharthey-Tagoe, that the
3 Company participates in these organizations to best serve the
4 communities in which our customers live and in which we operate.

- 5 **4. Costs that are not 100 percent related to South Carolina.** The
6 ORS removed several transactions that it labeled as “not related to
7 SC.” For example, the ORS removed registration fees paid to the
8 North Carolina Department of Motor Vehicles (“DMV”) for
9 transmission vehicles. However, the ORS made no adjustment to
10 accept the full cost of fees paid to the South Carolina DMV that
11 were also allocated between North Carolina and South Carolina.
12 Transmission assets are considered system assets and the costs to
13 maintain those assets, including registration fees on company
14 vehicles, are appropriately allocated to all customers based on peak
15 demand. Therefore, the Company allocated the registration fees for
16 transmission vehicles paid to both the North Carolina and the
17 South Carolina Departments of Motor Vehicle to all customers
18 based on a transmission allocator. On other costs that could be
19 direct assigned by state, such as bill inserts, the ORS
20 recommended removing the costs for North Carolina bill inserts
21 that were allocated between North Carolina and South Carolina,
22 but did not recommend direct assigning 100 percent of the costs
23 for South Carolina bill inserts to South Carolina. If the ORS had

1 direct assigned both North Carolina and South Carolina bill insert
2 costs, it likely would have ended up in a similar place as the
3 Company achieved through applying an allocator based on number
4 of customers. The key point is that the ORS is focused on what
5 costs South Carolina customers should not pay, but ignores the
6 effect of that same logic on what costs South Carolina customers
7 should bear under that same theory.

8 5. **Timing differences.** The Company believes that the 2017 test year
9 amount requested for recovery in this proceeding is representative
10 of the Company's expenses for a 12-month period. The ORS
11 removed various transactions due to the invoice date and the date
12 the invoice was paid being in different calendar years. For
13 example, if the invoice was dated 2016 and paid in 2017 the ORS
14 removed the expense from the test year. However, this ignores the
15 fact that the Company uses accrual accounting. When the expenses
16 are incurred, the Company will accrue an estimated expense if the
17 amount meets a certain threshold per the Company's accrual
18 policy. Then, when the invoice is received and processed, which
19 may be the following calendar year, the Company reverses the
20 accrual and books the actual expense. This suggests the ORS
21 believes unless an expense is paid in the year it is incurred it
22 should not be recovered from customers, ignoring the concept of
23 accrual accounting in the removal of these expenses.

1 6. Litigation expenses - The Company opposes ORS witness
2 Smith's updated adjustment removing litigation expenses for the
3 reasons set forth in the rebuttal testimony of Company Witness
4 Wright.

5 **Adjustment #37 –Customer Growth.** While the amounts calculated by
6 the Company and ORS for this adjustment are different based on other
7 areas of disagreement, we agree on the concept of and the method used to
8 calculate this adjustment.

9 **Adjustment #38 –Adjust Revenue, Taxes and Customer Growth for**
10 **the Proposed Increase.** While the amounts calculated by the Company
11 and ORS for this adjustment are different based on other areas of
12 disagreement, we agree on the concept of and the method used to calculate
13 this adjustment.

14 *Remaining Adjustments Opposed by the Company*

15 **Q. OF THE REMAINING ADJUSTMENTS THAT THE COMPANY**
16 **OPPOSES, WHICH ONES ARE RESPONDED TO BY OTHER**
17 **COMPANY WITNESSES?**

18 A. The following ORS adjustments from Audit Exhibit GS-1, are responded
19 to by other Company witnesses in rebuttal testimony

20 **Change in debt cost rate from 4.63 to 4.44 percent**

21 The Company does not oppose updating the cost of debt, but recommends
22 a rate of 4.53 percent, reflecting the cost of debt financing through

1 December 2018. This adjustment is further discussed in the rebuttal
2 testimony of Company Witness Sullivan.

3 **Change in return on equity from 10.50 to 9.30 percent**

4 The Company opposes this adjustment for the reasons set forth in the
5 rebuttal testimony of Company Witness Hevert.

6 **Adjustment #15 – Adjust reserve for end of life nuclear costs**

7 The Company opposes this adjustment for the reasons set forth in the
8 rebuttal testimony of Company Witness Capps.

9 **Adjustment #28 – Adjust for credit card fees**

10 The Company opposes this adjustment for the reasons set forth in the
11 rebuttal testimony of Company Witness Quick.

12 **Q. DO YOU HAVE ANY RESPONSE TO PARTIES WHO ARGUE**
13 **THAT THE “STEP UP” RATE INCREASES DESCRIBED IN THE**
14 **COMPANY’S DIRECT CASE ARE INAPPROPRIATE?**

15 A. Yes. For all the reasons described in the Company’s direct case, we
16 continue to think we proposed an appropriate and reasonable manner in
17 which to recover Grid Improvement Costs. I’m not a lawyer, but from my
18 view we proposed a procedure that would allow for prudence
19 determination and notice to customers that meet the requirements for
20 ratemaking as I understand them.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.